

## MARKETING TO UPSCALE RESTAURANTS

By Doyle Freeman  
Manager, Penn's Corner Farm Alliance

Why should a farmer like me join a marketing cooperative?

I keep bees, and I need to get enough selling the honey to cover my expenses. If I take the amount of honey in this bear to Dutch Gold Honey, my nearest packer, they will give me 43 cents. Less 6 cents for the container I am required to use for them to accept it nets me 37 cents. This is way below my cost of production. So my problem is how do I receive enough for my product to actually turn a profit? The traditional answer is get big or get out.

The University of Florida did a study that to have sufficient economies of scale would take a minimum of 800 hives. The investment in basic supplies is over \$1/4 million, with a total investment closer to \$3/4 million. If I had that much to invest, I would probably not start a beekeeping operation! So what is a producer to do? I am too stubborn (or perhaps foolish) to get out, I lack the resources to get big, so I need a third alternative. The average farm in Pa. is 64 acres, so I certainly am not alone in this dilemma of size and economies of scale.

So I set up my table twice a week at the farmers market and sell an average of \$250 per market – 125 bears at \$2.00 each. But going to market costs money too. Even figuring the paltry wage of \$5.00 per hour, going to two markets cost out as follows: \$56.45 per week for market #1 and \$107.82 for market #2. This leaves a gross return per unit sold of \$1.55 per bear at market #1 and \$1.14 for market #2. This increase is sufficient to cover my cost of production and start to earn me an income, but it still does not provide enough revenue volume for my farm.

I need another way to market that will get me that higher price per unit, and move enough volume to get the gross revenue I need. That's where our Cooperative, the Penn's Corner Farm Alliance becomes part of my farms marketing strategy. I can now sell more of my honey all year long, with a lower cost of market each week.

Looking at it from another product: One of our producers grows and sells green bell peppers. Traditionally he would take them to the wholesale house in Pittsburgh's Strip District, where they would pay him \$4.85. The wholesaler would then sell them to the distributor, about 4 miles away on the North Side. The distributor would then sell them to the purveyor our in Greensburg, about 40 miles east. The purveyor then would make the final delivery into the restaurant, charging \$11.90. Nothing new here, traditional maximization of a product distribution network. Yet at least 2 people have problems with this system: The problem for our grower comes in pricing which is often below the cost of production. The other person with a problem is the chef; it may have taken 2 weeks to make that simple little trip right here in town often leaving the pepper stale or wilting before he can use it. The Cooperative sells that same bushel of peppers for \$14.00. The grower nets \$11.20, considerably better than \$4.85. The chef is willing to pay that small premium because it is fresh, picked the previous day. He also is able

to use the fact that it is direct from local farmers as a marketing tool. As an added bonus, we custom grow a number of specialty products for specific chefs that are not readily available through standard purveyors. It is the freshness and first rate quality that put our products in demand. The chefs get that extra fresh flavor of fresh picked with no need to allow for waste (no defects) so their business draw more people and they are more profitable. A win-win situation at its best!

Penn's Corner is a cooperative that started with 9 farms (currently involving 17) located in the 9 counties surrounding Pittsburgh and serving the Greater Pittsburgh Region. We primarily serve 21 restaurants, the Greater Pittsburgh Food Bank, and 3 stores to whom we supply a wide variety of fruits, vegetables, herbs, honey, eggs, and meats. We partner with the Southwest PA Commission (a regional planning organization supporting county planning commissions), The Southwest PA Food Systems Council, the Allegheny County Health Department, and the Western PA Restaurateurs Association helping to educate the businessman, consumer, and government officials why maintaining area farms is vital to the health of the community. We have also helped with fundraisers for the American Heart Association, sponsored a Spring Herb and Garden Festival, and done interviews and presentations on National Public Radio and local radio and TV stations. We are becoming a positive public relations source linking the agriculture producer with the urban city dweller.

What we have done here is break the food system into 3 components: Production, Distribution, and Retailing. Our cooperative concerns itself with the first two while concentrating on a particular segment of retailer: Upscale chefs. According to USDA figures that are already dated, the farmer is receiving around 21 cents of the consumer dollar. Restaurants are taking around 16 cents of the consumer dollar for their operation. This leaves the remaining 63 cents for the wholesaler, distributor, and purveyor. We are able to provide our returns to the grower and cover our expenses by capturing that 63 cents. After our first summer season we computed prices and found the cooperative returned to the grower an additional 43% gross income over conventional wholesale markets. We have not eliminated the distributors, we have become them.

We do this by being a bare-bones, maximum efficiency-for-our-scale operation. Every weekend the grower sends a list of what he has available to the Cooperative Office. This is compiled and distributed to the chefs. Orders are taken by Tuesday, Tuesday night the growers are notified of what they need to supply. Wednesday it is picked and taken to the Alliance Pickup Points. Thursday the Alliance delivery truck leaves early from the first point, loads at the other 2, and delivers on the way back. Quantities are confirmed from the delivery tickets for invoicing which is sent over the weekend, and the cycle is restarted. Growers are paid in the middle of the following month, giving them a net 15 to a net 45. From June through November when we have significantly more product available we run other concurrent cycles for multiple delivery days. This also helps us maximize our fixed overhead costs. As our supply and variety increases with the additional cold frames, hoop houses, and greenhouses our members are constructing we will increase the time we are able to deliver multiple days. We continue to do slow, measured growth so that we continue to deliver consistent service and keep our customers happy.